Managing Oil and Gas

for transparency, equity and sustainability

Experiences from Timor-Leste

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Contents

This presentation will discuss experiences, successes and challenges in managing oil and gas revenues and companies in Timor-Leste. We hope it will help Myanmar decide what to do and what to avoid.

1. Petroleum Dependency

Timor-Leste is the second-most petroleum-export dependent country in the world.

This dominates our history, our government, our economy … and our future.

In 2011	Timor-Leste	Myanmar
Population	1.2 million, 15% urban	50 mill., 34% urban
Land area	15,000 km^2 8% arable, 1% irrigated	654,000 km^2 15% arable, 3% irrig
Land borders	260 km	5,876 km
Coastline	783 km	1,930 km
GDP/capita	$3,950 ($960 non-oil)	$830 ($770 non-oil)
State revenues	$3.4b	$2.0b
State expenditures	$1.1b	$4.3b
Foreign debt	0 (no longer)	$8.1b
All Exports Non-petrol. exports	$3.0b $0.02b	$9.5b $5.5b
Imports	$1.3b	$5.5b
Population in poverty	50%	33%
Children under 5 underweight	41%	30%

In 2011	Timor-Leste	Myanmar
Oil reserves remaining	520 million bbl	50 million bbl
Oil production	30 million bbl	8 million bbl
Reserve/production ratio	17	6
Gas reserves remaining	1,050 mmboe	1,870 mmboe
Gas production	32 mmboe	76 mmboe
Reserve/production ratio	33	25
Oil and gas revenues	$3.0b	$3.7b (?)
SWF earnings	$0.28b	--
Non-oil revenues	$0.11b	$0.25b (?)
State oil dependency	97%	92%
Economy oil dependency	76%	7%

Myanmar has less gas than other gas producers in Asia-Pacific (except T-L)

Natural gas: Proved reserves at end 2011

	Trillion cubic feet	Trillion cubic metres	Share of total	R/P ratio
Australia	**132.8**	**3.8**	1.8%	83.6
Bangladesh	**12.5**	**0.4**	0.2%	17.8
Brunei	**10.2**	**0.3**	0.1%	22.5
China	**107.7**	**3.1**	1.5%	29.8
India	**43.8**	**1.2**	0.6%	26.9
Indonesia	**104.7**	**3.0**	1.4%	39.2
Malaysia	**86.0**	**2.4**	1.2%	39.4
Myanmar	**7.8**	**0.2**	0.1%	17.8
Pakistan	**27.5**	**0.8**	0.4%	19.9
Papua New Guinea	**15.6**	**0.4**	0.2%	*
Thailand	**9.9**	**0.3**	0.1%	7.6
Vietnam	**21.8**	**0.6**	0.3%	72.3
Other Asia Pacific	**12.1**	**0.3**	0.2%	18.9
Total Asia Pacific	**592.5**	**16.8**	**8.0%**	**35.0**

BP lists Timor-Leste's 5 tcf as part of Australia.

Source: *BP World Energy Review 2012*

2011 UNDP Human Development Report

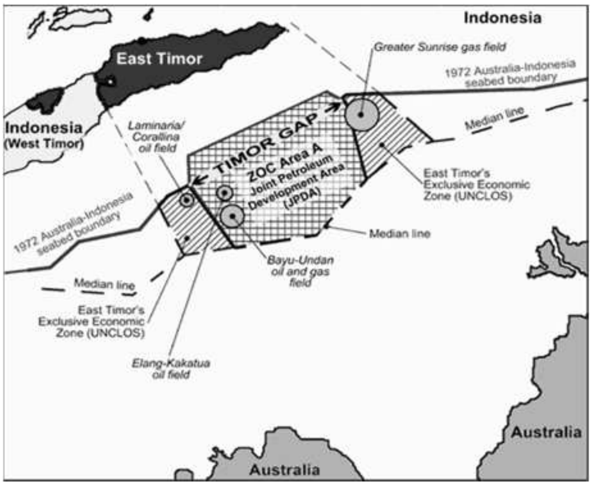
Data (most from 2009)	Timor-Leste	Myanmar
HDI rank out of 187 (and index)	147 (0.495)	149 (0.483)
Life expectancy (years)	62	65
Mean years of schooling	2.8	4.0
Expected years of schooling	11.2	9.2
Gross National Income (GNI) per capita	$3,005	$1,535
Non-income HDI rank	156	144
Maternal mortality (per 100,000 births)	370	240
Fertility rate (per adult woman)	6	2
Multidimensional poverty index	.360	.154
People in multidimensional poverty	68%	32%
People in severe poverty	39%	9%

Most people in TL live in rural areas by subsistence agriculture.

History in one slide

- People have lived in Timor-Leste for at least 5,000 years.
- Portuguese colonized nearly 500 years ago.
  - They brought Catholicism but little development or education.
  - Onshore oil exploration started in 1890s.
- Australia, then Japan, invaded in 1941-45.
  - 40,000-60,000 Timorese killed in WWII, which didn't involve them.
- Portugal's military dictatorship resumed control in 1945.
  - Offshore oil exploration began in the 1960s.
- Portugal began decolonizing in 1974.
  - After Carnation Revolution brought down Portuguese dictatorship
  - TL declared independence 28 November 1975 … but 10 days later
- Indonesia invaded on 7 December 1975.
  - Indonesia killed 100,000-200,000 Timorese in 24-year occupation.
  - Timor-Gap Treaty 1989; oil production started 1998.
- Referendum in 1999, then 2-½ years of UN rule.
- Finally independent on 20 May 2002.
  - Oil income got much larger since 2005-2007.

Timor-Leste’s oil and gas is offshore in waters taken by Indonesia and disputed with Australia.



Basic Statistics for Timor-Leste

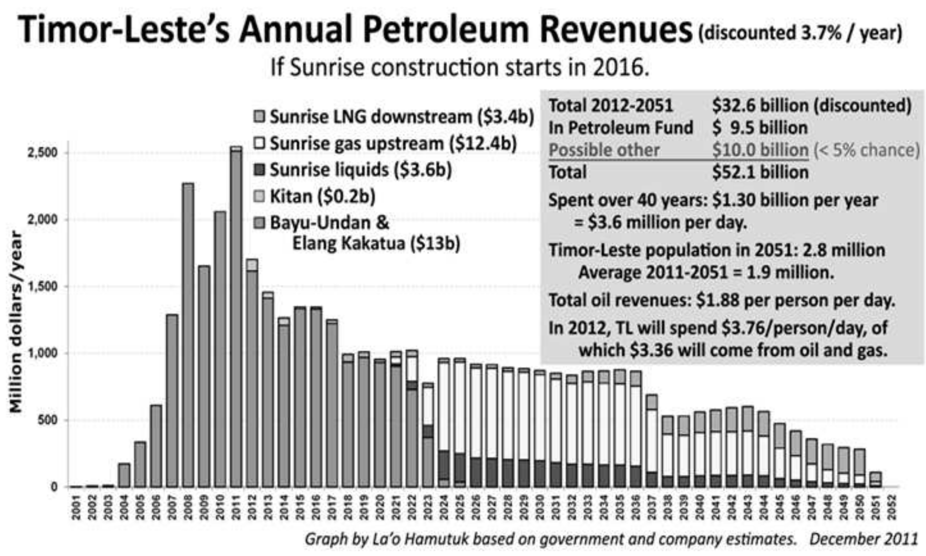
- **About 50% of people live below the poverty line.**
- **80% live in rural areas, largely by subsistence farming.**
- **Two thousand children under age 5 die from preventable conditions every year … fifty times as many as people of all ages are killed by violence (39 in 2010).**
- **In 2010, TL exported $16 million (coffee).**
- **In 2010, TL imported $288 million (everything).**

Petroleum Dependency

- **State expenditures in 2012:.......................................$1,674 million**
  $1,495 million (89%) will come from the Petroleum Fund.
- **Non-oil GDP in 2012:.. $930 million**
- **GNI in 2012:...$3,751 million**
  $2,497 million is from exporting nonrenewable oil and gas. Together with **$ 324 million** from Petroleum Fund investments, this is 75% of our entire economy and 97% of state revenues. It is declining and could end by 2024.
- **State activities paid with oil money are about half of Timor-Leste’s “non-oil” economy as they are recycled through the local economy.**
- **Petroleum income doesn’t provide jobs or money for people – it all goes to the State.**
- **Although the Petroleum Fund can improve equity between generations, it does not guarantee good governance or eliminate corruption, and will not last long if current policies continue.**

South Sudan is the only country which depends more on oil and gas exports than Timor-Leste.

TL’s oil wealth is not enough.



2. The 'Resource Curse'

Oil income flows easily (for a while), but comes with damaging consequences, policies and practices.

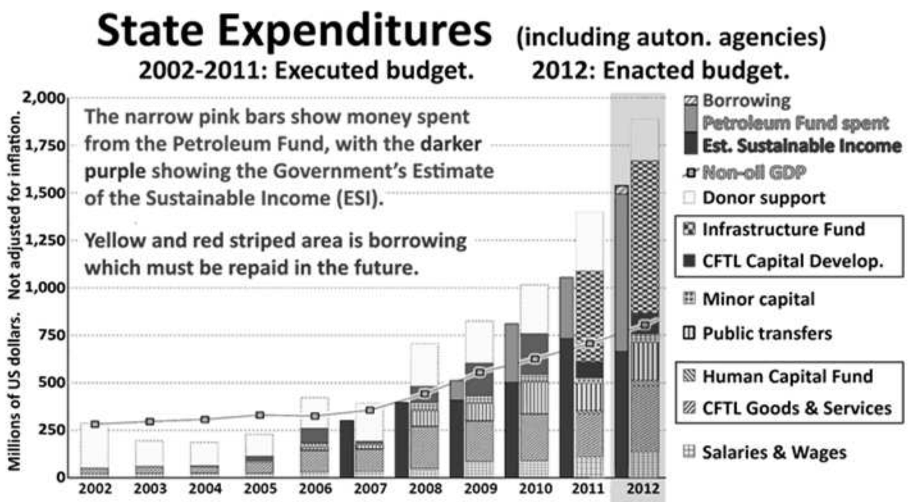
Signs of the "resource curse" in TL (1)

- **Seeing money as the solution to every problem**
  It's easier to buy a scholarship than to build a university.
- **Spending without thinking**
  Real state expenditures are growing 28% every year.
- **Lack of realistic long-term planning**
  The Strategic Development Plan is but a dream.
- **Import dependency**
  Timor-Leste has a billion-dollar non-oil trade deficit.
- **Inflation from little local productive capacity**
  ("Dutch disease" -- prices went up 17% in Dili in 2011.)
  Our economy cannot absorb the cash in circulation.

Signs of the "resource curse" in TL (2)

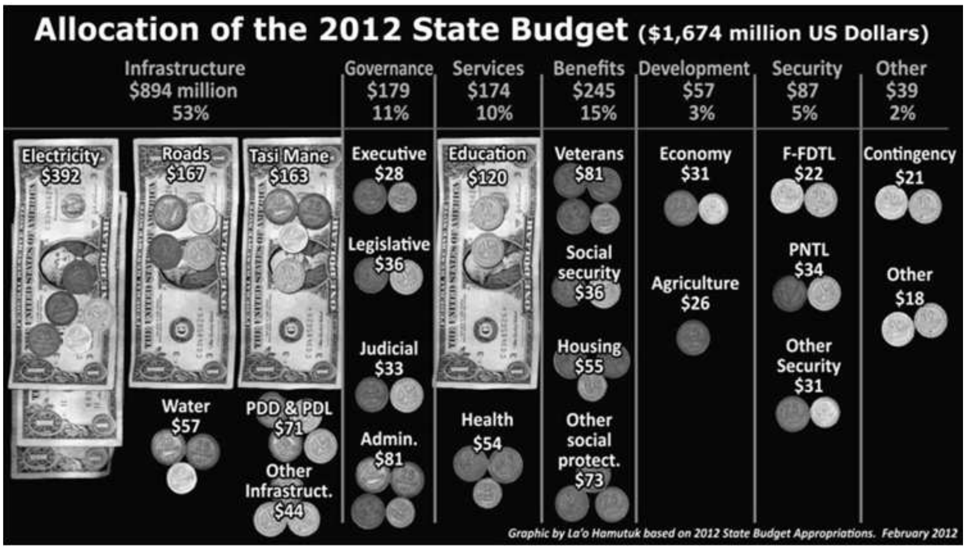
- **Ignoring non-oil development and revenues**
- **Acting as if the oil money will last forever**
  Both producing fields will be emptied by 2024.
- **Borrowing today, to repay tomorrow**
  TL will borrow a half-billion dollars in the next five years and billions more after that.
- **Wealth goes mainly to the urban elite.**
  Most people won't benefit from highways, airports and oil processing, but will feel the burden of loan repayments.
- **Petroleum sector "captures" decision-making.**
  Few creative ideas to develop agriculture, education, tourism, small industries, food processing, etc.

State Budgets 2002-2012



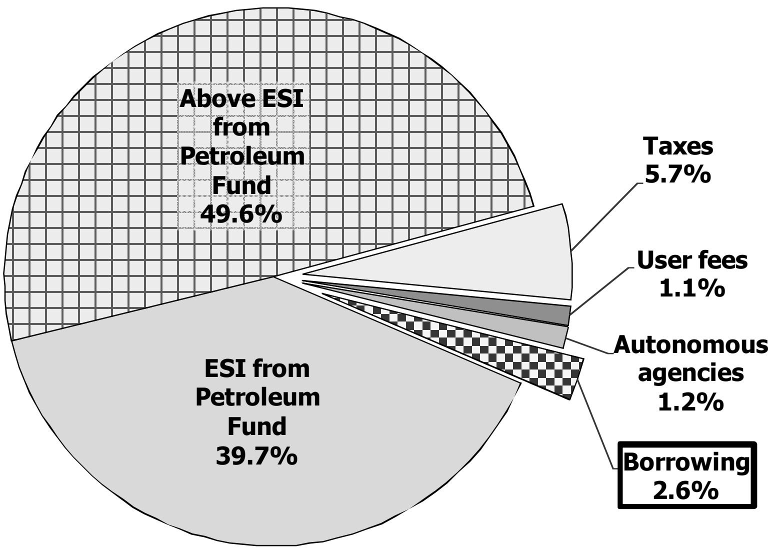
The State Budget goes up 28% per year more than inflation, faster than the economy and faster than every nation except Zimbabwe.

The 2012 Budget is for infrastructure.



Income in the 2012 state budget

Total revenue: $1,674 million



Symptoms we have alleviated:

- **Spending the money as fast as it comes in.**
  The Petroleum Fund separates state revenues from oil income.
- **State budgets go up and down with world oil prices and field production.**
- **Money disappears before it gets to the State.**
  Companies deposit oil revenues directly into the Fund.
- **When the oil is gone, nothing will be left.**
  If invested and spent wisely, Fund earnings will continue.
- **Invasion, occupation and war**
  Australia steals via negotiations, companies cheat on taxes, but this is much less bloody than before 1999.

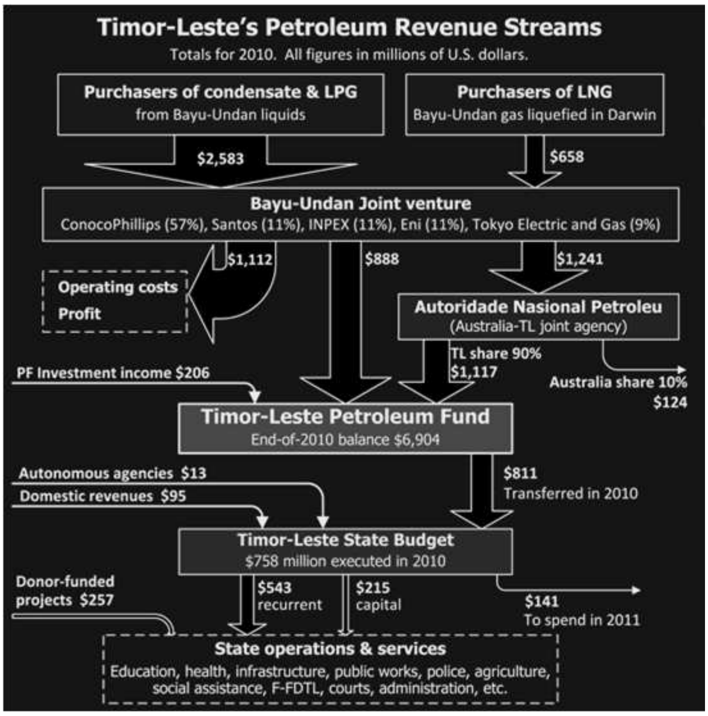
3. T-L's Petroleum Fund

We have $10 billion in the bank, but how long can it sustain us after the oil and gas is gone?

Why do we have a Petroleum Fund?

- Decouple oil revenues from state spending.
- Stabilize against oil market price variations.
- Earn investment return for sustainability when oil and gas are used up.
- Improve transparency and management of oil revenues, prevent corruption.
- Ensure spending decisions are open and democratic.

Money from where, to where?



State services shouldn’t rise and fall with world oil market prices

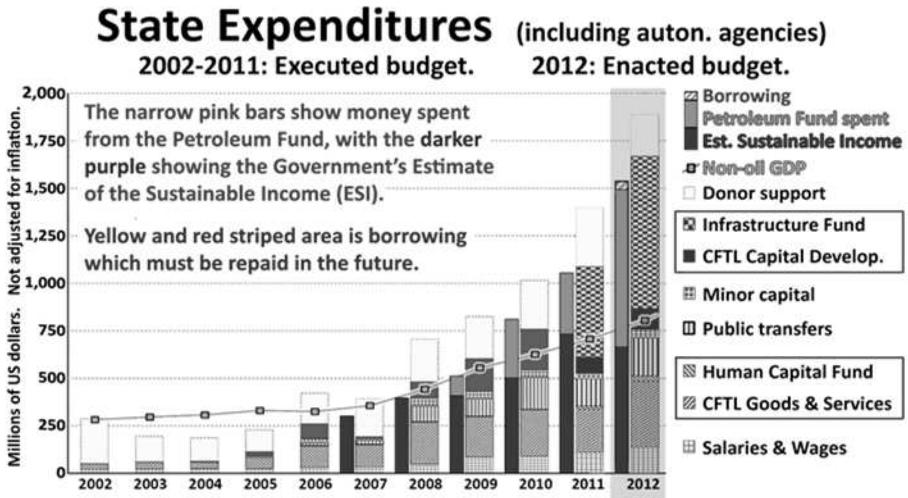
‘Estimated Sustainable Income’

- **Intended to maintain a steady flow of revenue to the state budget.**
- **3% of (Fund Balance + NPV of future oil and gas revenues)**
- **Could provide constant revenues forever.**

But

- **Investment real return has been less than 3%.**
- **Population, prices and expectations grow.**
- **Overspending is too tempting and easy.**

Overspending ESI since 2009



In 2010, Petroleum Fund withdrawals exceeded spending. They may again in 2012, as the entire budget will not be executed.

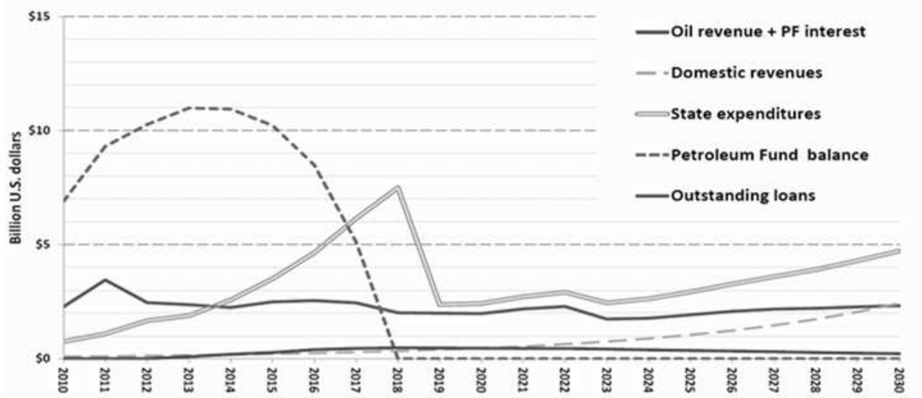
If current trends continue, TL will not be able to finance its budget in six years.

Assumptions:

Oil price projections: EIA Reference case (more optimistic than MoF uses), assuming Greater Sunrise pipeline to TL is built now.
Petroleum Fund investments return 3.0%/year nominal. During 2010-11 the fund earned 2.7%/year.
Domestic (non-oil) revenues increase 16.0%/year, growing to 19.2%/year after 2030. During 2009-2011, domestic revenues increased only 14%/year.
State expenditures increase 36.0%/year, declining to 21.6%/year after 2030. During 2010-2012, expenditures increased 41%/year.
Includes only $484 million in loans listed in GSB 2012.

Results:

Petroleum Fund will be all spent by 2018.



Projections and graph by La’o Hamutuk based on RDTL state budgets, Petroleum Fund reports and other sources. July 2012

Lessons from Timor-Leste's petroleum revenue experience

- **A Sovereign Wealth Fund and transparency are not enough to prevent the resource curse.**
- **It's easy to make rules before oil money pours in, but hard to follow them after it comes.**
- **People expected too much from the Fund.**
- **Laws are not strong enough.**
- **Temptation to overspend is very powerful.**
- **Non-Government actors need to be stronger.**

4. Government transparency

Timor-Leste officials are proud of transparency, including EITI and other aspects.

How well does it work?

Timor-Leste's Transparency Pillars

1. Best practice Petroleum Fund and revenue management
2. EITI + PWYP, global standards
3. Transparency portal
   - Budget Execution
   - Procurement
   - Foreign Assistance
   - Government results
4. Broadcast Parliamentary budget debates
5. Publish Council of Ministers decisions

These are Government claims. Practice is not consistent.

2005: TL Petroleum Act

- Oil production contracts must be public.
- Standard PSC – no bonuses or other special payments.
- Open, transparent bidding rounds.

But

It does not apply to contracts signed before 2005, which cover the two largest fields.

We find information in many places.

- ✓Transparency portal
- ✓Central Bank Petroleum Fund Reports
- ✓ANP, IAB and MoF reports on Petroleum revenue management
- ✓Budget documents & execution reports
- ✓EITI reports
- ✓IMF, World Bank, ADB and oil company reports
- ✓Televised budget debates
- ✓Unofficial sources and leaks

But the new National Oil Company TimorGAP is less transparent and accountable.

Timor-Leste and the EITI process

- 2003: Prime Minister Alkatiri speaks at founding EITI conference in London, commits Timor-Leste.
- 2005: Petroleum Act and Petroleum Fund Act passed, with good transparency provisions.
- 2007: EITI qualification process starts; after July elections new government continues it.
- 2008: MSG active, workplan published
- Jan. 2010: first EITI report published, covering 2008
- July 2010: EITI certifies T-L as the third compliant country in the world (after Azerbaijan and Liberia).
- March 2011: EITI report for 2009 published.

Controversial issues in MSWG

- Sharing information from EITI Multi-Stakeholder Working Group discussions
- Disaggregation by time, project, and revenue stream
- Truly independent certification

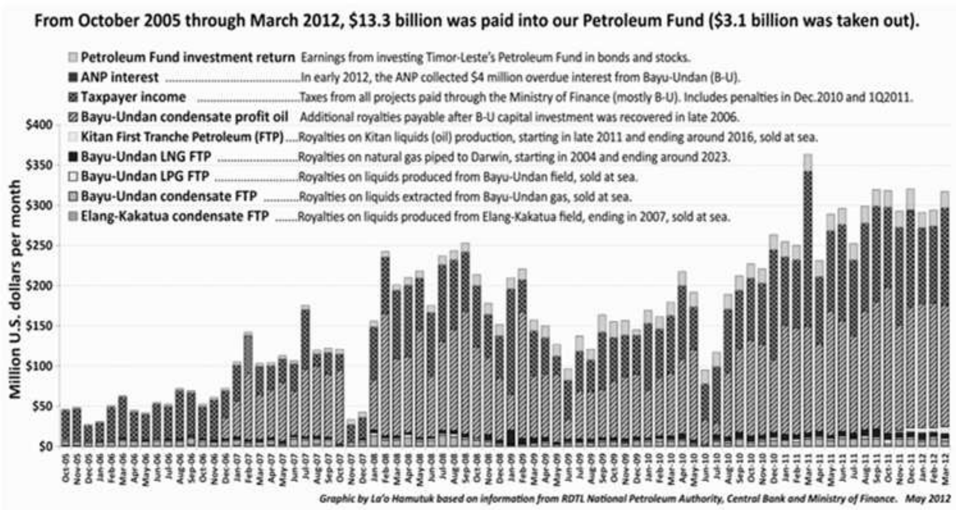
After 2009, La'o Hamutuk decided not to continue in the MSWG, as we preferred an "outside" strategy, rather than simply to publicize EITI as the final transparency standard.

We're proud to be the first EITI compliant country in Asia!

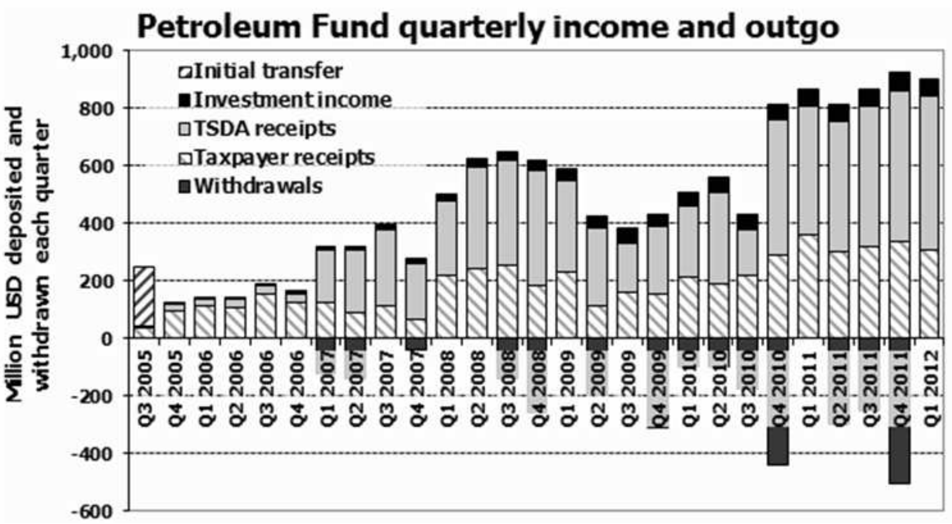
But

- EITI reports for 2010 and 2011 are not yet published.
- Civil society input mostly ignored.
- Too aggregated.
- Doesn't show company cheating or penalties.
- Won't show state-company collusion.
- No truly independent audit until 2012.

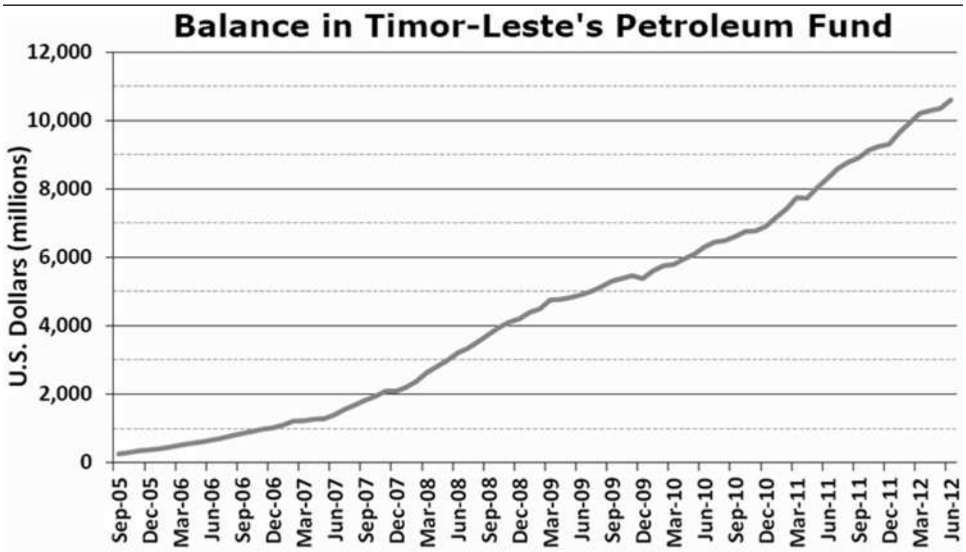
We know where we get revenues.



We know the income and outgo.



We know how much is in the fund.



But the "resource curse" remains.

- **Rapid budget escalation to unsustainable spending levels**
- **Denial that the oil and gas will run out soon**
- **Poor planning**
- **Preference for showy mega-projects**
- **Neglect of human resources and non-oil sectors**
- **Inflation, increasing gap between rich and poor**
- **Greed, corruption, mismanagement.**

Many challenges lie ahead.

- **Accessing and analyzing public information to understand and influence policies.**
  State leaders, public servants, journalists, civil society and citizens need to use the information.
- **Resisting the temptation to overspend.**
- **Ensuring that children, rural poor, women and other vulnerable people’s rights are respected.**
- **Preventing the oil companies from stealing.**
- **Making the national oil company transparent and responsive to public needs.**
- **Developing a sustainable economy.**

Thank you.

You will find more and updated information at

- **La’o Hamutuk’s website**
  http://www.laohamutuk.org
- **La’o Hamutuk’s blog**
  http://laohamutuk.blogspot.com/

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